

PRELIMINARY DRAFT FOR DISCUSSION

DESIRED TERMS FOR THE RENEWAL
ENTERPRISE DISTRICT’S HOUSING FUND

The following information contained in this Term Sheet is intended as a summary of certain key terms and conditions for the proposed investment by the City of Santa Rosa (the “City”) in the Renewal Enterprise District’s (the “RED”) Housing Fund (the “Fund”). This summary of terms is non-binding; no party will have any obligation with respect to the terms and arrangements described herein unless and until the parties enter into a definitive agreement with respect to such terms or arrangements.

Borrower:	TBD; funds awarded to the City from PG&E settlement funding will be loaned to the Fund, but the legal structure of the Fund and the specific entity receiving funds is to be determined. The Fund may be established as a standalone entity, or as a subsidiary to a community development financial institution (“CDFI”). The evaluation of alternative legal and operating structures is currently underway, including considerations such as, among others, compatibility of the Fund’s legal structure with the Fund’s investment objectives, available operating capabilities for underwriting and investment servicing, and financial sustainability of the Fund. Borrower entity will be formed prior to execution of Fund’s loan documents.
Lender:	The City of Santa Rosa, the “City”. Investment from the City of Santa Rosa is made from funds awarded to the City from PG&E settlement funding.
Loan:	Lender will provide a \$10 million loan (“Loan”) to Borrower (see <i>Terms Specifically Applicable to the Loan</i>).
Project Criteria:	The Fund’s proceeds may only be used to support projects that are consistent with the RED’s Board adopted project-criteria (“Project Criteria”), including any Board approved amendments (see Exhibit A).
Terms Specifically Applicable to the Loan:	The following terms apply to the City’s Loan to the Fund: <ul style="list-style-type: none"> • <u>Term</u>: The term of the City’s Loan to the Fund is twenty (20) years • <u>Interest</u>: 0% • <u>Amortization</u>: The outstanding principal will be due on the maturity date. There will be no principal amortization required during the term of the Loan. • <u>Security</u>: None • <u>Recourse</u>: The Loan will be recourse to the Borrower subject to the terms of subordination (see <i>Subordination</i>). • <u>Prepayment</u>: The Loan may be prepaid in whole or in part at any time without penalty.
Commitment Schedule:	A preliminary commitment from the City has been received. The Fund has also received a preliminary commitment of \$10 million from the County of Sonoma

(the “County”), to be provided to the Fund in the form of a loan with terms similar to those outlined in this document.

Disbursement Schedule:

Proceeds disbursed immediately at closing of Fund, to the Fund. Target closing date [August 2021]. In order for the Fund to receive funding, the Fund must be established and ready to receive funds.

Proceeds will be deposited in an escrow account at a trust company or bank satisfactory to the City, the County, and the Fund. The Fund’s Board will adopt a policy of permitted investments that will be consistent with or more restrictive than the permitted investments listed in the City of Santa Rosa Statement of Investment Policy.

Geographic Considerations:

Proceeds from the Loan are initially only eligible to fund projects located within the City’s geographic borders. Once a project has repaid its loan and capital is returned to the Fund, the Fund will be able to recycle the proceeds and support projects throughout Sonoma County, provided that the Fund must continue to provide financing to projects in Santa Rosa in proportion to the share of the Fund’s total available investable capital that is attributable to the City of Santa Rosa’s loan to the Fund. For example, if the City of Santa Rosa’s loan to the Fund represents 50% of the Fund’s available investable capital, then at least 50% of the Fund’s available investable capital must be allocated for projects located in Santa Rosa.

Affordability Requirements:

Consistent with the mission of the RED and its Project Criteria (Exhibit B), the Fund intends to finance residential and mixed-use projects at a range of income levels, given the vast need for affordable, middle income and market housing. Primarily, the Fund aims to create more dense, vibrant, equitable and inclusive communities within Sonoma County, and will seek to achieve this by supporting affordable, middle income and market projects. Over the life of the Fund, the Fund intends to support a balanced mix of market-rate and below-market-rate projects.

Subordination:

The Loan and the County’s \$10 million loan, together with other capital raised from any other municipality within the County contributed to the Fund (collectively referred to as the “Public Sector Capital”, will be subordinate to all other debt that the Fund raises from private and philanthropic sources. In the event of any losses incurred by the Fund attributable to its lending and/or investing activities, these losses will be allocated first to the Public Sector Capital on a pro-rata basis, based on each municipality’s share of the overall Public Sector Capital Investment.

Use of Proceeds:

The Fund will use the Loan proceeds to offer certain types of financing products or to provide guarantees or credit enhancement in support of the development of infill housing adhering to the RED’s Project Criteria.

These products include:

- *Subordinate loan for affordable projects:* Flexible financing provided by the Fund to fill gaps in a project’s capital stack at all phases of the development process.

- *Subordinate loan for middle income and market projects:* Construction-phase financing representing approximately 10% of a project's total development costs, subordinate to a conventional construction loan and with the ability to convert to permanent debt or equity. As an alternative, the Fund may provide guarantees or credit enhancement to conventional construction lenders, allowing these lenders to offer larger loans to cover a greater proportion of the developer's total construction costs.
- *Mezzanine permanent loan for middle income and market projects:* Gap-filling, permanent financing sized to a project's available cash flow after payment of required, first-position debt service. Convertible to equity in limited circumstances when project is unable meet debt service requirements.

No more than 15% of proceeds from the Loan may be used to fund soft costs for market-rate projects. No more than 25% of proceeds from the Loan may be used to fund soft costs for affordable projects.

It is anticipated that the financing products targeted to middle income and market housing may only need to be made available to an initial set of projects, which, when completed, will help to jumpstart a market for infill multifamily housing in downtown Santa Rosa and activate existing lenders to fully finance subsequent, similar projects, thereby eliminating the need for further financing from the Fund for this purpose. Once these products are no longer needed, the Fund can recycle its funding and use its capital to develop additional products that meet the current market needs.

In addition, the Fund may use Loan proceeds to:

- Satisfy liquidity covenants and establish necessary reserves; and
- Invest reserves in investments permitted by the Fund's policy of permitted investments.

Financial Reporting/ Records:

No later than 90 days from the close of each fiscal quarter of each fiscal year of the Fund, the Fund will provide a Quarterly Report to its investors and lenders, providing detail on the Fund's loan and investment portfolio and financial performance, including quarterly unaudited financials. No later than 180 days from the close of the Fund's first fiscal year (for the year ending [date]), the Fund will provide an Annual Report, including detail on the Fund's loan and investment portfolio and financial performance supported with audited financial statements. Proceeding after the Fund's first fiscal year, the Fund will provide an Annual Report, including detail on the Fund's loan and investment portfolio and financial performance supported with audited financial statements, no later than 120 days from the close of the Fund's fiscal year.

City Representation:

It is anticipated that the Fund will have a governing body comprised of a mix of independent representatives and public sector representatives, with independent representatives constituting a majority. The City may appoint (1) individual to the Fund's governing body.

Relationship to RED:

The Fund will support the mission and policy objectives of the RED. The Fund will support and finance the types of projects prioritized by the RED which

adhere to Project Criteria. Depending on the legal structure of the Fund, the RED may also have a role in the Fund's governing body and will help to oversee and advise on investment decisions.

Limitation on Short Term Rentals: For any project funded by the City's Loan, the project loan documents shall include language prohibiting short term rentals for the term of the project loan. Short Term Rentals shall mean a stay of thirty (30) days or less.

Exhibit A

RED Project Criteria

[TBU; Insert RED Project Criteria here]